

From: Goddard, Abbie [abbie.goddard@lehman.com]
Sent: Thursday, August 21, 2008 5:44 PM (GMT)
To: Fielding, Stirling [sfieldin@lehman.com]; Bekirov, Zaur [zaur.bekirov@lehman.com]
Cc: Fleming, Dan (TSY) [dfleming@lehman.com]; Collateral Management [CollateralManagement@lehman.com]; Funding and Forecasting [fundingandforecasting@lehman.com]
Subject: RE: LEHMANS SETTLEMENT ISSUES
Attach: RE_ZAR payments 21.08.08.msg;RE_ZAR payments 21.08.08.msg;RE_South Africa Settlements for 21 August 2008 - net debit of ZAR1,680,088,804-57.msg

Stirling,

I wasn't aware there were 'issues' today. I've tried to write up the chain of events based on the emails attached. It will obviously be better to get an update from Z / Brian tonight and the London team in the morning.

We were aware that LBIE were going to be short cash for 1.7 Billion on the account today due to DVP settlement. The agent queried this with Network (Jon) yesterday. We advised how we were funding the account with which flows including reference (last attachment above). I also called Beverly yesterday to explain how this cash would move including the potential later receipt of funds - she seemed happy with this correspondence. Apparently she is on holiday today.

From reading the attachments there were two issues possibly three:

*

It seems NY were waiting on funds of 865m from ABN (2nd attachment) - I would question if this was in one flow or split.

*

It also seems that NY did not send all MT210 instructions for their account and the agent could not follow up with counterparts before NY got in (1st attachment). I asked Brian to clarify on this but he hasn't come back. I thought it may be to do with CLS activity that maybe does not get pre-advised (not sure how this process works)

*

Potential intraday CLS block as NY were due to pay 1.1 Billion and receive 920m - NY will need to confirm this.

I note on the correspondence below Standard Bank mentioned something

about 'being bottom of the pile is uncomfortable' - something to note here and for them to understand is that they are the only counterpart we are paying, they are certainly not last on Lehman's payment pile.

Thanks,
Abbie.

From: Fielding, Stirling
Sent: 21 August 2008 17:51
To: Bekirov, Zaur
Cc: Fleming, Dan (TSY); Goddard, Abbie
Subject: FW: LEHMANS SETTLEMENT ISSUES
Importance: High

Z do you know what happened Citi and why/if they released this late?

From: Lilienfeld, Hugh H [<mailto:Hugh.Lilienfeld@standardbank.co.za>]
Sent: 21 August 2008 16:37
To: Igoe, Joseph
Cc: Fihla, Kenny K; Green, Fiona F; Cornelissen, Annerie A; Nicholson, Beverley B; Tinavapi, Catherine CT; van Staden, Christo C; Finlayson, Derick D; van Zyl, Marius M; Brown, Beverly B
Subject: LEHMANS SETTLEMENT ISSUES

Hi Joe,

[15h00 SA time - Today, by the way, is similar but different to Thursday two weeks ago. We were still waiting for R700m. FNB were saying that they hadn't got the instruction yet and Citibank said that they sent the funding at 11h00 this morning. Eric from your collateral area is saying that funding will arrive in 20 minutes. [The final funding was eventually received at +15h30.] Being at the bottom of the pile is uncomfortable to say the least.]

Thanks for the email. I understand your time issues. We would like to have the proposed conference call on Tuesday please. Please advise some times when you could do it and I will arrange that we fit in. We will have people from our operational (custody and cash) departments, representatives from our credit area and also myself and my director from our relationship. I will forward a list of the people as soon as I can.

I thought that I should position the situation as we see it before the meeting to ensure that we start on pretty much the same page. Please don't hesitate to come back to me on any issues that are not clear below.

URGENCY

I and our operational areas are under strong pressure from our risk people to get a proper handle over the exposure that we have to Lehmans. Can I ask that we treat the issues with a good measure of importance so that we can get them behind us [and then carry on with our normal lives!!].

LEGAL ISSUES

I have attached a document that has been prepared by our legal area. Depending on the existing agreements for each of the Lehman entity, this document or a modified version thereof will need to be signed by ourselves and the entity involved. This will give your legal department a heads-up of our requirement.

Depending on our discussions next week, we will decide if any of the operational issues should be included in the legal document.

[CSA - As an aside, the CSA that we have been looking for from LBI appears to have stalled. Can we get it moving again please?]

PRODUCT ISSUES

Bonds

Our settlement team is working on the best way of prefunding settlement. We have a model to utilise in the case of bond trading on the BESA platform but will only be able to give you high level details tomorrow. This will be for discussion on Tuesday. We believe that our solution will have the minimum impact on Lehmans.

We believe that our bond solution will be possible by Tuesday pending your approval to the process. Our equity solution is currently being tested.

Equities

Equity trading is currently on a T+ 5 basis and therefore there are more variables to consider. We will present you with a couple of options on Tuesday. If possible, we will have our proposal on your desk by tomorrow.

Safex Settlements

We have looked at the current situation here and would like to discuss the initial margin arrangements/requirements.

Scrip borrowing.

On the Lehman Brothers Securities Lending account with SBSA, we would like to discuss collateral management. Current process is that collateral is moved the day after settlement of loans. We propose that collateral is moved prior to settlement of the loans and we would like to discuss the impact of this process on Lehmans.

SOLUTIONS

Prefunding generally seems to be the best option for virtually all of the above products - it definitely works for us. Are there any other solutions that you may have thought of? Possibly a guarantee or standby Letter of Credit? Particularly in the short term, where I am under pressure to provide some answers internally in a hurry, a guarantee or L/C might be an option.

Looking forward to your response and our discussion next Tuesday.

Best regards

Hugh

Hugh Lilienfeld | Relationship Executive | Financial Institutions Group
| Standard Bank of South Africa Ltd, Johannesburg.

From: Igoe, Joseph
Sent: 20 August 2008 12:48
To: 'Lilienfeld, Hugh H '
Cc: Fielding, Stirling; Rees, Huw; Goddard, Abbie; Seeranj, Jonathan
Subject: FW: LETTER RE OVERDRAFT

Hugh,

Sorry that you called at a bad time as I had an external call scheduled.

We would like to discuss the operation of our accounts with you in a broader forum, which would include personnel from your operations and credit divisions. We would like to understand your concerns in more detail as well as discussing our operating model and flows for our South African fixed income and equities business.

Personnel from our end will include Stirling Fielding, the Head of our Collateral Management Group; Abbie Goddard, who oversees the operating of the cash accounts; Jon Seeranj, who covers the South African market from our Network Management team, myself and others as appropriate.

As you can understand, the solution you are proposing for the operation of our accounts would be a substantial change to our operating model. Therefore, we believe it more than appropriate to discuss this with you and your colleagues in some detail.

Due to travel plans and the fact that there is a bank holiday in the UK next Monday, I suggest that we arrange a conference call sometime between next Tuesday and Thursday. I will suggest a specific time in the next few days. Please indicate your availability as well as which of your colleagues will participate.

I look forward to hearing from you. If you have any questions, please don't hesitate to contact me.

Regards,
Joe Igoe

Joseph A. Igoe
Director
Treasury- Creditor Relations
LEHMAN BROTHERS
25 Bank Street | London, E14 5LE
* Direct: +44 (0)20 710 25489
* Mobile: +44 (0)7768 487903
* E-mail: joseph.igoe@lehman.com

From: Sent: 20 August 2008 11:13
To: Igoe, Joseph
Cc:
Subject: RE: LETTER RE OVERDRAFT

Hi Joe,

Sorry we could not speak just now. I will phone later.

I am sure that you are under pressure both time- and people-wise but I am being asked how our discussion is going.

How soon do you think we can talk to your people about solutions to the problem that we have posed to you? Can we do it in the next day or two? If you could give me a couple of times that you are available, I can get our team involved.

As I am away from the office for the next couple of hours, can I ask that you email me please.

Thanks & regards

Hugh

Hugh Lilienfeld | Relationship Executive | Financial Institutions Group
| Standard Bank of South Africa Ltd, Johannesburg.

From: Igoe, Joseph [<mailto:joseph.igoe@lehman.com>]
Sent: 18 August 2008 16:02 PM
To: Lilienfeld, Hugh H
Cc: Finlayson, Derick D; van Zyl, Marius M; Cornelissen, Annerie A;
Nicholson, Beverley B; Brown, Beverly B; Fihla, Kenny K; Green, Fiona F
Subject: RE: LETTER RE OVERDRAFT

We will be reviewing this letter and will respond accordingly.

Regards,

Joseph A. Igoe
Director
Treasury- Creditor Relations
LEHMAN BROTHERS
25 Bank Street | London, E14 5LE
* Direct: +44 (0)20 710 25489
* Mobile: +44 (0)7768 487903
* E-mail:joseph.igoe@lehman.com

From: Lilienfeld, Hugh H [<mailto:Hugh.Lilienfeld@standardbank.co.za>]
Sent: 18 August 2008 14:56
To: Igoe, Joseph
Cc: Finlayson, Derick D; van Zyl, Marius M; Cornelissen, Annerie A;
Nicholson, Beverley B; Brown, Beverly B; Fihla, Kenny K; Green, Fiona F
Subject: LETTER RE OVERDRAFT

Hi Joe,
As discussed just now, I enclose a letter relating to the recent situation where we came close to being faced with an overdraft for Lehman's that would have been unacceptably high.

<<Settlement Letter.pdf>>

I understand that it is high holiday season in the UK but can I ask that you look at the letter and come back to me with what is possible. We need to start the proposed dialogue as soon as possible as the matter has reached a high profile in the Standard Bank. Our cash and custody teams are ready to join a conference call where, hopefully, we can discuss the letter and other possible solutions to this issue.

I suggest also that you could perhaps identify where the delays took place that almost caused the overdraft on Thursday last. I really felt that we bent many rules to, literally, fetch the funding from the other Lehman's agents. There may be ways of ensuring that this takes place more efficiently from your side of the chain.

I look forward to your response.
Kind regards
Hugh

Hugh Lilienfeld | Relationship Executive, Financial Institutions Group,
Standard Bank of South Africa Ltd | 3 Simmonds Street | Johannesburg |
South Africa |
*: +2711 636 0540 | *+2783 307 4717 | 7: +2711 636 0548 | *:
hugh.lilienfeld@standardbank.co.za

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